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4 BEFORE THE INSURANCE COMMISSIONER
5 OF THE STATE OF WASHINGTON
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7 In the Matter of

No. G02-45

8 THE APPLICATION REGARDING
9 THE CONVERSION AND
10 ACQUISITION OF CONTROL OF
PREMERA BLUE CROSS AND
ITS AFFILIATES

PRE-FILED DIRECT TESTIMONY
OF PATRICK H. CANTILO

11 I, Patrick H. Cantilo, do hereby declare that the following facts are personally
12 known to me and, if called upon to do so, I would testify to them.

13 1. I am now, and at all times pertinent herein was, a citizen of the United
14 States and a resident of the State of Texas, over the age of eighteen (18) years, and
15 competent to testify in a court of law.

16 2. I am a partner of Cantilo & Bennett, L.L.P. (C&B). C&B contracted with
17 the OIC Staff to assist in the analysis and evaluation of the application submitted by
18 Premera.

19 3. I have attached to this instrument as Exhibit "S-30" a copy of my current
20 curriculum vitae, which summarizes my credentials and expertise.

21 4. Attached are several reports prepared by, and containing the observations
22 and conclusions of, C&B, which were delivered under its contract with the OIC Staff,
23 and in the preparation of which I participated. They are:
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1 a. Exhibit "S-31" which is a copy of a final report including
2 executive summary analyzing Premera's Form A Statement filed on September 17,
3 2002, entitled "Final Report of Cantilo & Bennett, L.L.P.: An Analysis of the Form A
4 Statement Regarding the Acquisition of Control of a Domestic Health Carrier and a
5 Domestic Insurer Premera Blue Cross, States West Life Insurance Company, LifeWise
6 Health Plan of Washington, LifeWise Health Plan of Oregon, Inc., Premera Blue Cross
7 Blue Shield of Alaska, and MSC Life Insurance Company direct or indirect affiliates of
8 PREMERA by [New PREMERA Corp.] Filed with the Insurance Commissioner of the
9 State of Washington, the Alaska Division of Insurance, and the Oregon Insurance
10 Division" dated October 27, 2003.

11 b. Exhibit "S-32" which is a copy of a supplemental report including
12 an executive summary relating to Premera's proposed stock ownership plan entitled
13 "Executive Compensation Report of Cantilo & Bennett, L.L.P.: An Analysis of the
14 Form A Statement Regarding the Acquisition of Control of a Domestic Health Carrier
15 and a Domestic Insurer Premera Blue Cross, States West Life Insurance Company,
16 LifeWise Health Plan of Washington, LifeWise Health Plan of Oregon, Inc., Premera
17 Blue Cross Blue Shield of Alaska, and MSC Life Insurance Company direct or indirect
18 affiliates of PREMERA by [New PREMERA Corp.] Filed with the Insurance
19 Commissioner of the State of Washington, the Alaska Division of Insurance, and the
20 Oregon Insurance Division" dated November 26, 2003.

21 c. Exhibit "S-33" which is a copy of a supplemental report including
22 executive summary taking into consideration Premera's revisions to its Form A
23 Statement that were submitted on February 5, 2004, entitled "Supplemental Report of
24 Cantilo & Bennett, L.L.P.: An Analysis of the Form A Statement Regarding the

1 Acquisition of Control of a Domestic Health Carrier and a Domestic Insurer Premera
2 Blue Cross, LifeWise Assurance Company, LifeWise Health Plan of Washington,
3 LifeWise Health Plan of Oregon, Inc., Premera Blue Cross Blue Shield of Alaska, and
4 LifeWise Health Plan of Arizona, Inc. direct or indirect affiliates of PREMERA by
5 [New PREMERA Corp.] Filed with the Insurance Commissioner of the State of
6 Washington, the Alaska Division of Insurance, and the Oregon Insurance Division”
7 dated February 27, 2004.

8 d. Exhibit “S-34” which is a copy of a legal opinion with respect to
9 the legal issues arising if Premera’s Application were approved concerning the
10 allocation of consideration between the proposed charitable organizations of the State
11 of Washington and the State of Alaska prepared by C&B, dated February 19, 2004,
12 with attached exhibits prepared by PricewaterhouseCoopers and The Blackstone Group
13 comprising reports relating to allocation methodologies.

14 e. Exhibit “S-35” which is a copy of a legal opinion by C&B, dated
15 January 16, 2004, relating to claims made by the Oregon Department of Justice to the
16 charitable assets of Premera if Premera’s Application is approved.

17 5. I was responsible for, participated in, or supervised, the preparation of the
18 foregoing reports and legal opinions; and therefore, my testimony is limited to the
19 content of those reports and documents unless otherwise noted herein.

20 6. Exhibits “S-30,” “S-31,” “S-32,” “S-33,” “S-34,” and “S-35” are
21 incorporated herein as if set forth verbatim.
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1 7. In addition to the above, I submit the following corrections or
2 clarifications with respect to Exhibit S-33:

3 a. On page 12 of the executive summary under the heading
4 “Supplemental Report Conclusion #11,” the words “is too broad” at the end of the first
5 sentence should be replaced with “may be considered as too broad because those
6 provisions are broader than the exemptions required to limit liability as a result of
7 diversification or holding speculative investments.”

8 b. On page 14 of the executive summary under the heading
9 “Additional Supplemental Report Conclusion #15,” the sentence “The Washington
10 Foundation’s Board of Directors should not be compensated” should be replaced with
11 “An argument can be made that the Washington Foundation’s Board of Directors
12 should not be compensated for their services as directors.”

13 c. On page 14 of the executive summary under the heading
14 “Additional Supplemental Report Conclusion #17,” the term “members” should be
15 replaced with “directors, officers, or employees.” In the second to last sentence, the
16 term “has” should be replaced with “may have.”

17 d. In the sixth sentence on page 14 of the executive summary under
18 the heading “Additional Supplemental Report Conclusion #18,” the term “required”
19 should be replaced with “suggested by example.”

20 e. On page 20 of the executive summary under the heading
21 “Supplemental Report Conclusion #32,” the phrase “See Supplemental Report
22 Conclusion #42” should be modified by changing “#42” to “#41.”¹

23 ¹ This change was identified when the hardcopy version of Exhibit S-33 was sent to the OIC.
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1 f. On page 23 of the executive summary, the heading "Additional
2 Supplemental Report Conclusion #43" should be modified by changing "#43" to
3 "#42."² Moreover, the word "Supplemental" should be inserted prior to the term
4 "License Agreement" in the following instances:

5 i. In the text under the revised heading "Additional
6 Supplemental Report Conclusion #42;"

7 ii. The heading "11. License Agreement" on page 79;

8 iii. Any other references to "License Agreement" under the
9 revised heading "11. Supplemental License Agreement" except that in the first sentence
10 of the text under this heading, the words "a License Agreement" should be replaced
11 with "an agreement (the "Supplemental License Agreement");" and

12 iv. In the text in the last paragraph under "Section V.
13 Conclusions" on page 90.

14 g. Footnotes 64 through 67 should be modified by deleting any
15 references to websites, and by changing any references to the date September 26, 2002
16 to February 5, 2004. Moreover, for footnote 64, the term "Exhibit A-4A" should be
17 replaced with "Exhibit A of Exhibit A-4."

18 h. In footnote 161, the words "first two and one-years" should be
19 changed to "first two and one-half years."

20 i. In the tenth sentence of the first full paragraph on page 32, the
21 term "required" should be replaced with "suggested by example."

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24 ² Id.

1 j. In the first full paragraph of page 85, the term "a member" should
2 be replaced with "directors, officers, or employees."

3 k. On the first line of the third full paragraph on page 85, the
4 reference should be to PREMERA's Restated Articles, and not to those of the
5 Washington Foundation.

6 l. In the first full paragraph of page 91, the defined term "Amended
7 Transaction" should be replaced with "Original Transaction."

8 8. In addition to the above, I submit the following corrections or
9 clarifications with respect to Exhibit S-34:

10 a. In the first sentence of the second paragraph on page 8, the words
11 "As has been true in other demutualizations and reciprocal insurance company
12 conversions" should be replaced with "As has been true in demutualizations and
13 conversions."

14 b. In the third sentence of the second full paragraph on page 12, the
15 words "Like the For-Profit Washington Subsidiaries and LifeWise of Oregon, Calypso
16 is simply an investment" should be replaced with "Like the For-Profit Washington
17 Subsidiaries and LifeWise of Oregon, Calypso should be treated simply as an
18 investment."

19 9. In addition to the above, I submit the following correction or clarification
20 with respect to Exhibit S-35:

21 a. Whenever reference is made to PREMERA's beneficiaries,
22 constituencies, or other similar reference, the citizens of the State of Alaska should be
23 included together with the citizens of the State of Washington.

1 I declare under penalty of perjury under the laws of the State of Washington
2 that the foregoing is true and correct.

3 Dated March 29, 2004, at Richmond, Virginia.
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6 PATRICK H. CANTILO
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